

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name	License Number		

Charter Township of Brownstown Wayne County, Michigan

**Financial Report
with Supplemental Information
December 31, 2006**

Charter Township of Brownstown

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Charter Township of Brownstown

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Independent Auditor's Report

To the Charter Township Board
Charter Township of Brownstown
Wayne County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Brownstown (the "Township") as of and for the year ended December 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Brownstown's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Brownstown as of December 31, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplemental information (as identified in the table of contents) are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Charter Township Board
Charter Township of Brownstown
Wayne County, Michigan

The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplemental information is presented for the purpose of additional analysis. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Brownstown's basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

May 24, 2007

Charter Township of Brownstown

Management's Discussion and Analysis

Our discussion and analysis of the Charter Township of Brownstown's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2006. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2006:

- The DDA still holds title to the land purchased in 2004 for the Town Center Development that is to be sold to developers in future years.
- State-shared revenue, the General Fund's largest single revenue source at \$2,240,000, was reduced by the State of Michigan by approximately \$21,000 for 2006 from the 2005 figure, but is \$920,000 less than received in 2001.
- The General Fund unreserved fund balance decreased by \$209,000 in 2006. The 2006 General Fund operating revenues increased. However, total operating expenditures and other financing uses exceeded total revenue. The amount designated for the 2007 budget decreased by nearly \$300,000 to \$131,000.
- The 2005 taxable value of the entire Township increased by 10.7 percent (the value used to calculate 2006 tax revenue). The non-DDA capture taxable value increased by 9.2 percent while the captured taxable value in the DDA district increased by 15 percent.
- During the year, the Township refunded \$5,545,000 of 1997 Police Facility bonds with an average interest rate of 4.8 percent used to finance the construction of the police station. These bonds were refunded through the issuance of \$5,610,000 of 2006 Police Facility Refunding Bonds with an average interest rate of 4.03 percent. The net savings over the next 15 years will be \$250,000.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

Charter Township of Brownstown

Management's Discussion and Analysis (Continued)

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

The Township as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

Summary Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current and other assets	\$ 15,192,000	\$ 15,088,000	\$ 8,586,000	\$ 8,667,000	\$ 23,778,000	\$ 23,755,000
Capital and restricted assets	<u>24,938,000</u>	<u>23,279,000</u>	<u>64,438,000</u>	<u>65,345,000</u>	<u>89,376,000</u>	<u>88,624,000</u>
Total assets	40,130,000	38,367,000	73,024,000	74,012,000	113,154,000	112,379,000
Liabilities						
Current liabilities	13,340,000	11,779,000	3,452,000	3,500,000	16,792,000	15,279,000
Long-term liabilities	<u>8,562,000</u>	<u>8,943,000</u>	<u>10,825,000</u>	<u>11,991,000</u>	<u>19,387,000</u>	<u>20,934,000</u>
Total liabilities	21,902,000	20,722,000	14,277,000	15,491,000	36,179,000	36,213,000
Net Assets						
Invested in capital assets -						
Net of related debt	15,438,000	13,380,000	49,944,000	49,328,000	65,382,000	62,708,000
Restricted	762,000	1,254,000	1,878,000	1,778,000	2,640,000	3,032,000
Unrestricted	<u>2,028,000</u>	<u>3,011,000</u>	<u>6,925,000</u>	<u>7,415,000</u>	<u>8,953,000</u>	<u>10,426,000</u>
Total net assets	<u>\$ 18,228,000</u>	<u>\$ 17,645,000</u>	<u>\$ 58,747,000</u>	<u>\$ 58,521,000</u>	<u>\$ 76,975,000</u>	<u>\$ 76,166,000</u>

The Township's combined net assets increased 1.1 percent from a year ago, increasing from \$76,166,000 to \$76,975,000. As we look at the governmental activities separately from the business-type activities, we can see that net assets increased by \$583,000 in governmental type and increased by \$226,000 in business type.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, decreased by \$983,000 for the governmental activities. This represents a decrease of approximately 33 percent. The current level of unrestricted net assets for our governmental activities stands at \$2,028,000, or about 11 percent of program expenses (compared to 16 percent in 2005).

Charter Township of Brownstown

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year and as compared to the prior year:

Summary Condensed Income Statement

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program revenue:						
Charges for services	\$ 5,118,000	\$ 5,155,000	\$ 6,509,000	\$ 7,362,000	\$ 11,627,000	\$ 12,517,000
Operating grants and contributions	166,000	250,000	-	-	166,000	250,000
Capital grants and contributions	2,320,000	3,194,000	752,000	3,124,000	3,072,000	6,318,000
General revenue:						
Property taxes	8,614,000	7,814,000	1,129,000	1,705,000	9,743,000	9,519,000
State-shared revenue	2,251,000	2,271,000	-	-	2,251,000	2,271,000
Investment earnings	242,000	163,000	379,000	197,000	621,000	360,000
Cable franchise fees	276,000	256,000	-	-	276,000	256,000
Gain (loss) on sale of assets	(4,000)	(13,000)	2,000	1,000	(2,000)	(12,000)
Miscellaneous	18,000	29,000	-	-	18,000	29,000
Transfers and other revenue (expense)	33,000	33,000	(33,000)	(33,000)	-	-
Total revenue	19,034,000	19,152,000	8,738,000	12,356,000	27,772,000	31,508,000
Program Expenses						
General government	2,560,000	3,113,000	-	-	2,560,000	3,113,000
Public safety	10,550,000	10,005,000	-	-	10,550,000	10,005,000
Public works	2,093,000	2,276,000	-	-	2,093,000	2,276,000
Community and economic development	1,389,000	1,378,000	-	-	1,389,000	1,378,000
Recreation and culture	1,269,000	1,202,000	-	-	1,269,000	1,202,000
Interest on long-term debt	590,000	397,000	-	-	590,000	397,000
Water and sewer	-	-	8,511,000	8,265,000	8,511,000	8,265,000
Total program expenses	18,451,000	18,371,000	8,511,000	8,265,000	26,962,000	26,636,000
Change in Net Assets	\$ 583,000	\$ 781,000	\$ 227,000	\$ 4,091,000	\$ 810,000	\$ 4,872,000

Governmental Activities

The Township's total governmental revenues decreased by approximately \$118,000, a decrease of less than 1 percent. Property taxes increased by \$800,000 and investment earnings increased by more than \$79,000, but these were offset by a decrease of \$958,000 in grants and contributions along with decreases in revenue sharing and building department permits.

Expenses increased by \$80,000 (.5 percent) during the year, resulting in a net decrease in assets of \$198,000.

Charter Township of Brownstown

Management's Discussion and Analysis (Continued)

Business-type Activities

The Township's business-type activities consist of the Water and Sewer Funds. We provide water to residents from the Detroit water system. We provide sewage treatment through the South Huron Valley Utility Authority and the Downriver Sewerage System. The net assets of both activities increased in 2006 mostly due to contribution of water and sewer mains from developers. The overall increase is also due to the Township's investment in the South Huron Valley Utility Authority.

The Township's Funds

Our analysis of the Township's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major governmental-type funds for 2006 include the General Fund, the Police Operation Fund, and the Fire Protection Fund. The business-type funds are the Sanitary Sewer Fund and the Water Fund.

The General Fund pays for most of the Township's governmental services including transfers to Police and Fire Funds to balance their budgets. The most significant costs are police and fire activities, which incurred expenses of approximately \$5,756,000 (4.6 percent increase over 2005) and \$3,797,000 (5.6 percent increase over 2005), respectively, in 2006. These two services are supported by special millages that are recorded in their individual Special Revenue Funds. These funds also record the transfers from the General Fund. The amount transferred from the General Fund is determined by the amount needed to balance the budgets as approved by the Township board. During the current year, this amounted to approximately \$2,098,000. Anticipated police retroactive pay and benefits for 2006 for the MAP union were recorded in the current year.

The dormitory addition to fire station #1 on Sibley Road was completed in 2006 at a cost of \$380,000.

Charter Township of Brownstown

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the Township amended the budget to take into account events during the year. These amendments were between various cost centers and did not affect the bottom line of the General Fund budget. The largest increases were to planning (\$62,000), sanitation (\$80,000), and the Wayne County Library System (\$57,000) with an offsetting decrease to contingencies. Revenues were not amended and actual revenues and transfers in were \$496,000 less than budgeted. Even though there is continued growth in the Township, permits related to construction were down \$165,000 from 2005. Township departments overall stayed below the amended budget amounts, resulting in total expenditures and transfers of \$389,000 below budget. The overall actual expenditures and transfers were greater than revenue so the General Fund's undesignated fund balance decreased from \$426,000 a year ago to \$217,000 at December 31, 2006, representing 1.3 percent of 2007 combined budgeted expenditures for the General Fund and Police Operation and Fire Protection Funds. Last year, this figure was 2.6 percent of 2006 combined budgeted expenditures for the same funds.

Capital Asset and Debt Administration

At the end of 2006, the Township had \$85,700,000 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines net of related accumulated depreciation. In addition, the Township has invested significantly in roads within the Township. These assets, worth nearly \$6,000,000, net of related accumulated depreciation, are reported in the Township's financial statements as investment in infrastructure. Because Michigan law makes these roads the property of Wayne County Road Commission, along with the responsibility to maintain them, they are listed as road usage rights.

During the year, the Township retired approximately \$1.9 million of debt. At the end of the year, the Township had \$8.4 million in bonds and notes outstanding for governmental-type activities compared to \$8.8 million at December 31, 2005, while business-type activities, all in the Sewer Fund, had \$11.5 million outstanding at the end of the year compared to \$12.8 million in the prior year. The DDA component unit has \$15 million in outstanding debt, the same as last year.

Economic Factors and Next Year's Budgets and Rates

The Township's budget for next year calls for property tax rates 5/100 of a mill less than levied for the 2006 budget. Two sewer bonds have lower payments in 2007 while the EPA levy increased. Because of the impact of Proposal A, however, the Township needs to continue to watch its budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions.

We anticipate the water rates will increase in 2007 equal to the rate increase imposed by the Detroit water board as permitted per Township ordinance.

Charter Township of Brownstown

Management's Discussion and Analysis (Continued)

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Charter Township of Brownstown

Statement of Net Assets December 31, 2006

	Primary Government			Component Unit - Downtown Development Authority
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 7,512,098	\$ 6,601,504	\$ 14,113,602	\$ 2,626,816
Receivables - Net (Note 4)	7,558,300	1,869,331	9,427,631	4,423,545
Inventories	15,520	114,618	130,138	-
Prepaid costs and other assets	40,365	395	40,760	-
Long-term receivable - Lease agreements	66,000	-	66,000	-
Restricted assets (Note 9)	-	1,878,821	1,878,821	-
Investment in joint venture (Note 14)	1,134,647	644,204	1,778,851	-
Land held for resale (Note 8)	-	-	-	14,265,000
Nondepreciable capital assets (Note 5)	4,235,769	453,501	4,689,270	-
Depreciable capital assets - Net (Note 5)	19,567,382	61,462,030	81,029,412	-
Total assets	40,130,081	73,024,404	113,154,485	21,315,361
Liabilities				
Accounts payable	743,537	461,317	1,204,854	667,338
Accrued and other liabilities	1,034,441	15,500	1,049,941	-
Deposits	44,196	349,145	393,341	-
Escrows	671,671	119,053	790,724	-
Deferred revenue (Note 4)	9,847,920	1,254,686	11,102,606	4,423,547
Compensated absences:				
Due within one year	439,254	28,733	467,987	-
Due in more than one year	754,967	12,091	767,058	-
Current liabilities payable from restricted assets (Note 9)	-	685,906	685,906	-
Long-term debt (Note 7):				
Due within one year	558,701	537,864	1,096,565	680,000
Due in more than one year	7,806,902	10,812,755	18,619,657	14,320,000
Total liabilities	21,901,589	14,277,050	36,178,639	20,090,885
Net Assets				
Invested in capital assets - Net of related debt	15,437,548	49,943,697	65,381,245	-
Restricted:				
Road improvement	69,491	-	69,491	-
Police and fire improvement	534,739	-	534,739	-
Drug forfeiture	157,668	-	157,668	-
Capital projects	-	770,572	770,572	-
Debt service	-	1,108,249	1,108,249	-
Unrestricted	2,029,046	6,924,836	8,953,882	1,224,476
Total net assets	<u>\$ 18,228,492</u>	<u>\$ 58,747,354</u>	<u>\$ 76,975,846</u>	<u>\$ 1,224,476</u>

Charter Township of Brownstown

	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions Capital Grants and Contributions
Functions/Programs			
Primary government:			
Governmental activities:			
General government	\$ 2,559,996	\$ 1,584,921	\$ 93,889
Public safety	10,549,931	1,425,002	26,101
Public works	2,092,613	940,167	2,575
Community and economic development	1,388,588	859,183	-
Recreation and culture	1,269,120	308,509	43,913
Interest on long-term debt	590,610	-	-
Total governmental activities	18,450,858	5,117,782	166,478
Business-type activities - Water and sewer	8,510,827	6,508,702	-
Total primary government	<u>\$ 26,961,685</u>	<u>\$ 11,626,484</u>	<u>\$ 166,478</u>
Component unit - Downtown Development Authority	<u>\$ 3,706,924</u>	<u>\$ 40,302</u>	<u>\$ -</u>
General revenues:			
Property taxes			
State-shared revenues			
Investment earnings			
Cable franchise fees			
Gain (loss) on sale of capital assets			
Miscellaneous			
Transfers			
Total general revenues and transfers			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - End of year			

Statement of Activities
Year Ended December 31, 2006

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Downtown Development Authority
\$ (881,186)	\$ -	\$ (881,186)	\$ -
(8,503,665)	-	(8,503,665)	-
435,585	-	435,585	-
(389,996)	-	(389,996)	-
(916,698)	-	(916,698)	-
(590,610)	-	(590,610)	-
(10,846,570)	-	(10,846,570)	-
-	(1,250,352)	(1,250,352)	-
(10,846,570)	(1,250,352)	(12,096,922)	-
-	-	-	(3,666,622)
8,614,491	1,128,807	9,743,298	3,951,529
2,250,855	-	2,250,855	-
242,230	378,549	620,779	119,108
276,410	-	276,410	-
(4,234)	2,522	(1,712)	-
17,469	-	17,469	-
32,513	(32,513)	-	-
11,429,734	1,477,365	12,907,099	4,070,637
583,164	227,013	810,177	404,015
17,645,328	58,520,341	76,165,669	820,461
\$ 18,228,492	\$ 58,747,354	\$ 76,975,846	\$ 1,224,476

Charter Township of Brownstown

Governmental Funds Balance Sheet December 31, 2006

	General Fund	Police Operation Fund	Fire Protection Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 1,212,044	\$ 2,440,503	\$ 913,781	\$ 2,945,770	\$ 7,512,098
Receivables - Net (Note 4)	1,931,329	3,353,937	1,248,072	995,907	7,529,245
Prepaid costs and other assets	593	4,835	3,273	31,612	40,313
Due from other funds (Note 6)	115,111	341,498	-	-	456,609
Long-term receivable - Lease agreements	-	-	-	66,000	66,000
Total assets	<u>\$ 3,259,077</u>	<u>\$ 6,140,773</u>	<u>\$ 2,165,126</u>	<u>\$ 4,039,289</u>	<u>\$ 15,604,265</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 303,206	\$ 81,556	\$ 52,760	\$ 300,375	\$ 737,897
Accrued and other liabilities	27,643	884,315	59,296	-	971,254
Due to other funds (Note 6)	341,498	-	-	66,527	408,025
Deposits	44,196	-	-	-	44,196
Escrows	531,471	-	-	140,200	671,671
Deferred revenue (Note 4)	<u>1,662,489</u>	<u>5,174,902</u>	<u>2,053,070</u>	<u>1,168,345</u>	<u>10,058,806</u>
Total liabilities	2,910,503	6,140,773	2,165,126	1,675,447	12,891,849
Fund Balances					
Reserved for prepaid costs	593	-	-	31,612	32,205
Unreserved, reported in General Fund:					
Designated for subsequent year's budget	130,966	-	-	-	130,966
Undesignated	217,015	-	-	-	217,015
Unreserved, reported in Special Revenue Funds:					
Designated for subsequent year's budget	-	-	-	489,516	489,516
Undesignated	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,842,714</u>	<u>1,842,714</u>
Total fund balances	<u>348,574</u>	<u>-</u>	<u>-</u>	<u>2,363,842</u>	<u>2,712,416</u>
Total liabilities and fund balances	<u>\$ 3,259,077</u>	<u>\$ 6,140,773</u>	<u>\$ 2,165,126</u>	<u>\$ 4,039,289</u>	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and are not reported in the funds					23,792,348
Investment in District Court assets is not a financial resource and is not reported in the funds					1,134,647
Delinquent personal property taxes receivable are expected to be collected over several years and are not available to pay for current year expenditures					11,709
Grant revenues not received within 60 days of year end and are not available to pay for current year expenditures					6,566
Ambulance fee receivables are expected to be collected over several years and are not available to pay for current year expenditures					120,611
Revenues not received within 60 days of year end and are not available to pay for current year expenditures					72,000
Long-term liabilities are not due and payable in the current period and are not reported in the funds					(9,559,288)
Accrued interest on long-term liabilities is not due and payable in the current period and is not reported in the funds					(62,517)
Net assets of governmental activities					<u>\$ 18,228,492</u>

Charter Township of Brownstown

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2006

	General Fund	Police Operation Fund	Fire Protection Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Property taxes	\$ 1,159,098	\$ 4,711,845	\$ 1,755,915	\$ 987,633	\$ 8,614,491
Licenses and permits	1,365,329	-	-	-	1,365,329
Federal grants	-	-	-	412,111	412,111
State-shared revenues and grants	2,250,855	-	-	-	2,250,855
Charges for services	628,246	-	-	-	628,246
District Court and other fines	922,108	-	-	-	922,108
Interest and rentals	70,781	51,807	5,863	102,448	230,899
Special assessments	805,265	-	-	-	805,265
Debt charges	-	-	-	707,663	707,663
Other	138,830	371,925	780,575	512,729	1,804,059
Total revenue	7,340,512	5,135,577	2,542,353	2,722,584	17,741,026
Expenditures					
Current:					
General government	2,330,266	-	-	-	2,330,266
Public safety	154,044	5,756,378	3,797,774	99,561	9,807,757
Community and economic development	2,623,839	-	-	217,289	2,841,128
Recreation and culture	1,179,457	-	-	-	1,179,457
Employee benefits and insurance	40,046	-	-	142,573	182,619
Capital outlay	-	-	-	1,446,128	1,446,128
Debt service	-	-	-	1,028,496	1,028,496
Total expenditures	6,327,652	5,756,378	3,797,774	2,934,047	18,815,851
Excess of Revenue Over (Under) Expenditures	1,012,860	(620,801)	(1,255,421)	(211,463)	(1,074,825)
Other Financing Sources (Uses)					
Transfers in (Note 6)	-	748,865	1,348,768	593,270	2,690,903
Transfers out (Note 6)	(1,723,663)	(128,064)	(93,347)	(710,833)	(2,655,907)
Proceeds from long-term debt issue	-	-	-	5,610,000	5,610,000
Transfer to escrow agent	-	-	-	(5,545,000)	(5,545,000)
Total other financing sources (uses)	(1,723,663)	620,801	1,255,421	(52,563)	99,996
Net Change in Fund Balances	(710,803)	-	-	(264,026)	(974,829)
Fund Balances - Beginning of year	1,059,377	-	-	2,627,868	3,687,245
Fund Balances - End of year	<u>\$ 348,574</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,363,842</u>	<u>\$ 2,712,416</u>

Charter Township of Brownstown

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ (974,829)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	1,370,092
Contributions of capital assets are reported as revenue in the statement of activities, but are not reflected in the fund-based statements	1,585,456
In the statement of activities, the loss on sale of assets is recorded and in the funds the proceeds from sale of assets are reported	(80,924)
Depreciation on capital assets reported as part of governmental activities	(1,284,910)
Changes in joint ventures are not recorded in the governmental funds, but are recorded in the statement of activities	61,062
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	(426,385)
Bond proceeds are not reported as financing sources on the statement of activities	(5,610,000)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	6,069,575
Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	(129,283)
Interest expense is recorded when incurred in the statement of activities, but only when due in the fund-based statements	3,310
Change in Net Assets of Governmental Activities	<u>\$ 583,164</u>

Charter Township of Brownstown

Proprietary Funds Statement of Net Assets December 31, 2006

	Major Enterprise Funds			Internal Service - Vehicle Maintenance
	Sanitary Sewer	Water	Total	
Assets				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 3,011,652	\$ 1,912,262	\$ 4,923,914	\$ -
Investments	1,677,590	-	1,677,590	-
Receivables (Note 4)	1,305,292	564,039	1,869,331	29,055
Inventories	-	114,618	114,618	15,520
Prepaid costs and other assets	175	220	395	52
Total current assets	5,994,709	2,591,139	8,585,848	44,627
Noncurrent assets:				
Restricted assets (Note 9)	1,140,614	738,207	1,878,821	-
Investment in joint venture (Note 14)	644,204	-	644,204	-
Nondepreciable capital assets (Note 5)	453,501	-	453,501	-
Depreciable capital assets - Net (Note 5)	45,463,197	15,998,833	61,462,030	10,803
Total noncurrent assets	47,701,516	16,737,040	64,438,556	10,803
Total assets	53,696,225	19,328,179	73,024,404	55,430
Liabilities				
Current liabilities:				
Accounts payable	65,750	395,567	461,317	5,640
Accrued and other liabilities	9,977	5,523	15,500	670
Due to other funds (Note 6)	-	-	-	48,584
Deposits	336,060	13,085	349,145	-
Escrows	-	119,053	119,053	-
Deferred revenue (Note 4)	1,254,686	-	1,254,686	-
Current portion of compensated absences	12,263	16,470	28,733	536
Current liabilities payable from restricted assets (Note 9)	685,906	-	685,906	-
Current portion of long-term debt (Note 7)	537,864	-	537,864	-
Total current liabilities	2,902,506	549,698	3,452,204	55,430
Noncurrent liabilities:				
Provision for compensated absences	5,274	6,817	12,091	-
Long-term debt - Net of current portion (Note 7)	10,812,755	-	10,812,755	-
Total noncurrent liabilities	10,818,029	6,817	10,824,846	-
Total liabilities	13,720,535	556,515	14,277,050	55,430
Net Assets				
Investment in capital assets - Net of related debt	33,944,864	15,998,833	49,943,697	10,803
Restricted	1,140,614	738,207	1,878,821	-
Unrestricted	4,890,212	2,034,624	6,924,836	(10,803)
Total net assets	<u>\$ 39,975,690</u>	<u>\$ 18,771,664</u>	<u>\$ 58,747,354</u>	<u>\$ -</u>

Charter Township of Brownstown

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2006

	Major Enterprise Funds			Internal Service - Vehicle Maintenance
	Sanitary Sewer	Water	Total	
Operating Revenue				
Sale of water	\$ -	\$ 3,603,318	\$ 3,603,318	\$ -
Sewage disposal charges	2,700,783	-	2,700,783	-
Charges for services	-	-	-	134,195
Other	156,267	166,725	322,992	542
Total operating revenue	2,857,050	3,770,043	6,627,093	134,737
Operating Expenses				
Cost of water	-	2,351,439	2,351,439	-
Cost of sewage disposal	1,481,002	-	1,481,002	-
Operation and maintenance	733,492	612,331	1,345,823	130,876
General and administrative	377,483	451,393	828,876	-
Depreciation	1,539,071	608,309	2,147,380	1,378
Total operating expenses	4,131,048	4,023,472	8,154,520	132,254
Operating Income (Loss)	(1,273,998)	(253,429)	(1,527,427)	2,483
Nonoperating Income (Expense)				
Property taxes	1,128,807	-	1,128,807	-
Connection fees	101,685	-	101,685	-
Decrease in investment in joint venture	(217,554)	-	(217,554)	-
Investment income	303,624	74,925	378,549	-
Interest expense	(356,307)	-	(356,307)	-
Total nonoperating income	960,255	74,925	1,035,180	-
Income (Loss) - Before capital contributions	(313,743)	(178,504)	(492,247)	2,483
Capital Contributions - Lines constructed by developers	334,603	417,170	751,773	-
Transfers from Other Funds (Note 6)	-	97,774	97,774	-
Transfers to Other Funds (Note 6)	(113,889)	(16,398)	(130,287)	(2,483)
Total transfers (to) from other funds	(113,889)	81,376	(32,513)	(2,483)
Change in Net Assets	(93,029)	320,042	227,013	-
Net Assets - Beginning of year	40,068,719	18,451,622	58,520,341	-
Net Assets - End of year	<u>\$ 39,975,690</u>	<u>\$ 18,771,664</u>	<u>\$ 58,747,354</u>	<u>\$ -</u>

Charter Township of Brownstown

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2006

	Major Enterprise Funds			Governmental Activities - Internal Service Fund
	Sanitary Sewer	Water	Total	
Cash Flows from Operating Activities				
Receipts from customers	\$ 2,796,320	\$ 3,546,743	\$ 6,343,063	\$ -
Payments to suppliers	(1,989,059)	(2,854,006)	(4,843,065)	(52,165)
Payments to employees	(629,585)	(609,001)	(1,238,586)	(87,326)
Internal activity - Receipts from other funds	-	-	-	151,023
Other receipts	156,267	166,725	322,992	542
Net cash provided by operating activities	333,943	250,461	584,404	12,074
Cash Flows from Noncapital and Related Financing Activities -				
Transfers to/from other funds	(113,889)	81,376	(32,513)	(2,483)
Cash Flows from Capital and Related Financing Activities				
Proceeds from property taxes	1,059,921	-	1,059,921	-
Purchase of capital assets	(248,192)	(305,291)	(553,483)	(9,591)
Connection fees	101,685	-	101,685	-
Principal and interest paid on capital debt	(1,367,185)	-	(1,367,185)	-
Deposit with County for debt	(149,711)	-	(149,711)	-
Net cash used in capital and related financing activities	(603,482)	(305,291)	(908,773)	(9,591)
Cash Flows from Investing Activities				
Interest received on investments	305,609	74,925	380,534	-
Proceeds from sale and maturities of investment securities	912,196	-	912,196	-
Net cash provided by investing activities	1,217,805	74,925	1,292,730	-
Net Increase in Cash and Cash Equivalents	834,377	101,471	935,848	-
Cash and Cash Equivalents - Beginning of year	2,687,497	2,532,794	5,220,291	-
Cash and Cash Equivalents - End of year	<u>\$ 3,521,874</u>	<u>\$ 2,634,265</u>	<u>\$ 6,156,139</u>	<u>\$ -</u>
Statement of Net Assets Classification of Cash and Cash Equivalents				
Cash and investments	\$ 3,011,652	\$ 1,912,262	\$ 4,923,914	\$ -
Restricted investments (Note 9)	510,222	722,003	1,232,225	-
Total cash and cash equivalents	<u>\$ 3,521,874</u>	<u>\$ 2,634,265</u>	<u>\$ 6,156,139</u>	<u>\$ -</u>

Charter Township of Brownstown

Proprietary Funds Statement of Cash Flows (Continued) Year Ended December 31, 2006

	Major Enterprise Funds			Governmental Activities - Internal Service Fund
	Sanitary Sewer	Water	Total	
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ (1,273,998)	\$ (253,429)	\$ (1,527,427)	\$ 2,483
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	1,539,071	608,309	2,147,380	1,378
Changes in assets and liabilities:				
Receivables	47,137	(110,016)	(62,879)	(7,573)
Inventories	-	(51,901)	(51,901)	(5,937)
Prepaid costs and other assets	94	40	134	21
Accounts payable	(25,284)	8,439	(16,845)	1,447
Accrued and other liabilities	46,923	49,019	95,942	(4,146)
Due to other funds	-	-	-	24,401
Net cash provided by operating activities	<u>\$ 333,943</u>	<u>\$ 250,461</u>	<u>\$ 584,404</u>	<u>\$ 12,074</u>

Noncash Investing, Capital, and Financing Activities - During 2006, the County paid approximately \$400,000 in principal, interest, and fees on behalf of the Township related to County Sewage Disposal System Bonds. In addition, developers contributed sewer and water fixed assets totaling \$334,603 and \$417,170, respectively, during 2006.

Charter Township of Brownstown

Fiduciary Funds Statement of Assets and Liabilities December 31, 2006

	<u>Agency Funds</u>
Assets - Cash and investments	<u>\$ 4,522,779</u>
Liabilities	
Due to other governmental units	\$ 866,482
Due to component unit	3,596,115
Accrued and other liabilities	<u>60,182</u>
 Total liabilities	 <u>\$ 4,522,779</u>

Charter Township of Brownstown

Notes to Financial Statements December 31, 2006

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Brownstown (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Brownstown:

Reporting Entity

The Charter Township of Brownstown is governed by an elected seven-member board of trustees. The accompanying financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Although blended component units are separate legal entities, in substance, they are part of the Township's operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Township.

Blended Component Units

The Brownstown Building Authority is governed by a board that is appointed by the Township's board of trustees. Although it is legally separate from the Township, it is reported as if it were part of the primary government because its primary purpose is to construct assets for the Township.

Discretely Presented Component Units

The Downtown Development Authority (the DDA) was created to correct and prevent deterioration in the district, encourage historical preservation, and to promote economic growth within the district. The DDA's governing body, which consists of nine individuals, is approved by the Township's board of trustees. In addition, the DDA's budget is subject to approval by the Township board. It is reported within the component unit column in the combined financial statements to emphasize that it is legally separate from the Township. The financial information included in the separate column is condensed. Complete financial statements of the DDA can be obtained from the Township offices at 21313 Telegraph Road, Brownstown Township, Michigan.

The Brownfield Redevelopment Financing Authority (the "Authority") was established pursuant to Public Act 381 of 1996. The Authority was created to promote revitalization of environmentally distressed areas within the boundaries of the Township. The Authority had no financial activity during the year ended December 31, 2006.

Charter Township of Brownstown

**Notes to Financial Statements
December 31, 2006**

Note 1 - Summary of Significant Accounting Policies (Continued)

Jointly Governed Organization

Jointly governed organizations are discussed in Note 14.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Charter Township of Brownstown

Notes to Financial Statements December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, district court fines, and interest associated with the current fiscal period. Conversely, federal grant reimbursements, ambulance fees, and land contracts will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue."

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Police Operation Fund and the Fire Protection Fund account for the activities of the police and fire departments requiring separate accounting because of special tax levies to fund operations.

The Township reports the following major Enterprise Funds:

The Water Fund and Sanitary Sewer Fund account for the results of operations for providing water and sewer service to the citizens and businesses of the Township. The funds' primary revenues are generated through user charges from those requesting water and sewer services.

Additionally, the Township reports the following fund types:

The Internal Service Fund - Vehicle Maintenance Fund accounts for the maintenance of Township vehicles provided by one department or agency to other departments or agencies of the Township, or to other governments, mainly on a cost-reimbursement basis.

Charter Township of Brownstown

Notes to Financial Statements December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Agency Funds account for assets held by the Township as an agent for individuals, organizations, and other governments. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water Fund and Sanitary Sewer Fund also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, it is the Township's policy to first apply restricted resources.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time they are added to the county tax rolls.

Property taxes billed during the month of December will be used to finance the following year's operations. As such, these taxes are recorded as deferred revenue in each respective fund at December 31.

Charter Township of Brownstown

Notes to Financial Statements December 31, 2006

Note I - Summary of Significant Accounting Policies (Continued)

The 2005 taxable valuation of the Township totaled \$960 million (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 0.8726 mills for operating purposes, 2.0000 mills for fire assessment, 5.7452 mills for police operations and assessment, 0.4784 mills for police capital improvement, .6500 mills for sewer debt service, 0.5600 mills for SHVUA debt service, 0.4784 mills for fire capital improvement, 0.4784 mills for road capital improvement, and 0.1572 mills for EPA debt. This resulted in \$599,000 for operating purposes, \$1.8 million for fire assessment, \$4.7 million for police operations and assessment, \$328,000 for police capital improvement, \$446,000 for sewer debt service, \$529,000 for SHVUA debt service, \$328,000 for fire capital improvement, \$328,000 for road capital improvement, and \$149,000 for EPA debt. These amounts, in addition to collection fees, interest, and penalties, are recognized in the respective General, Special Revenue, and Enterprise Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. To the extent that cash from various funds has been pooled, pooled investment income is generally allocated to each fund using a weighted average of balance for the principal.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown net of allowance for uncollectible amounts.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Charter Township of Brownstown

Notes to Financial Statements December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, furniture, equipment, and infrastructure assets (e.g., road usage rights and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$2,500 and having a useful life in excess of one year, although assets purchased under that threshold may be capitalized at the Township's discretion. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Road usage rights	20 years
Land improvements	15 to 20 years
Utility systems	40 to 45 years
Buildings and improvements	20 to 50 years
Vehicles	5 to 15 years
Office furnishings	10 to 20 years
Other tools, machinery, and equipment	5 to 20 years

Compensated Absences (Vacation and Sick Leave) - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. There were no employee terminations at December 31, 2006.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Charter Township of Brownstown

Notes to Financial Statements December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

State Construction Code Act - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall at January 1, 2006		\$ (55,289)
Current year building permit revenue		873,105
Related expenses:		
Direct costs	\$ 1,115,533	
Estimated indirect costs	<u>112,589</u>	<u>1,228,122</u>
Current year shortfall		<u>(355,017)</u>
Cumulative shortfall at December 31, 2006		<u>\$ (410,306)</u>

Fund Deficit - The Township has accumulated fund deficits in the CDBG Special Revenue Fund. The deficit is the result of federal reimbursements of eligible costs not being received within 60 days of year end. The Township expects to receive these funds in the upcoming fiscal year.

Charter Township of Brownstown

Notes to Financial Statements December 31, 2006

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated six banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 239 of 1998 has authorized investment in State statutory authority as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township's deposit policy for custodial credit risk requires all qualified institutions to provide audited financial statements, proof of certification and registration, and certification of having read the Township's investment policy. The Township is also to perform an annual review of financial condition and registration. At year end, the Township had \$16,229,483 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

At year end, the Downtown Development Authority had \$968,521 of bank deposits that were uninsured and uncollateralized.

Charter Township of Brownstown

Notes to Financial Statements December 31, 2006

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day or less maturity. At year end, the Township had no investment securities which would be susceptible to interest rate risk.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township's investment policy further limits its investment choices as noted above. As of year end, the Township had no investment securities which would be susceptible to credit risk.

Concentration of Credit Risk - The Township places no limit on the amount the Township may invest in any one issuer.

Note 4 - Receivables and Deferred Revenue

Receivables as of year end for the Township's individual major funds, the nonmajor and Internal Service Funds in the aggregate, and the component unit are as follows:

	General Fund	Police Operation Fund	Fire Protection Fund	Nonmajor Governmental and Internal Service Funds	Sanitary Sewer Fund	Water Fund	Total	Component Unit - Downtown Development Authority
Receivables:								
Taxes	\$ 1,077,979	\$ 3,333,294	\$ 1,127,052	\$ 892,769	\$ 821,581	\$ -	\$ 7,252,675	\$ 4,298,675
Accounts	-	-	123,529	-	454,384	478,805	1,056,718	-
Intergovernmental	771,474	-	-	79,244	-	-	850,718	-
Interest and other	81,876	20,643	409	52,949	29,327	85,234	270,438	124,870
Less allowance for uncollectibles	-	-	(2,918)	-	-	-	(2,918)	-
Net receivables	<u>\$ 1,931,329</u>	<u>\$ 3,353,937</u>	<u>\$ 1,248,072</u>	<u>\$ 1,024,962</u>	<u>\$ 1,305,292</u>	<u>\$ 564,039</u>	<u>\$ 9,427,631</u>	<u>\$ 4,423,545</u>

The Township records deferred revenue for property taxes billed as of December 1 that are to be used in the next year's budget. In addition, governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reflected in governmental funds are as follows:

Charter Township of Brownstown

Notes to Financial Statements December 31, 2006

Note 4 - Receivables and Deferred Revenue (Continued)

	Unavailable	Unearned
Land contracts	\$ 72,000	\$ -
Property taxes for subsequent year	-	9,847,920
Delinquent property taxes	11,709	-
Grant reimbursement	6,566	-
Ambulance fees - Net of allowance	120,611	-
Total	<u>\$ 210,886</u>	<u>\$ 9,847,920</u>

Deferred revenue in business-type activities consists of unearned property taxes for the subsequent year. Deferred revenue of the component units consists of \$4,298,675 of unearned property taxes for the subsequent year and \$124,872 from Wayne County, Michigan related to a road improvement project.

Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance January 1, 2006	Additions	Disposals and Adjustments	Balance December 31, 2006
Governmental Activities				
Capital assets not being depreciated - Land	\$ 4,235,769	\$ -	\$ -	\$ 4,235,769
Capital assets being depreciated:				
Road usage rights	6,635,283	1,981,475	-	8,616,758
Land improvements	675,949	259,035	-	934,984
Buildings and improvements	12,087,890	310,976	-	12,398,866
Vehicles	4,551,972	223,449	827,564	3,947,857
Office furnishings	663,061	3,903	17,233	649,731
Other tools, machinery, and equipment	2,587,655	186,301	57,400	2,716,556
Subtotal	27,201,810	2,965,139	902,197	29,264,752
Accumulated depreciation:				
Road usage rights	2,097,500	352,844	-	2,450,344
Land improvements	370,772	34,586	-	405,358
Buildings and improvements	3,013,866	238,229	-	3,252,095
Vehicles	1,977,895	369,314	746,905	1,600,304
Office furnishings	308,755	40,023	17,233	331,545
Other tools, machinery, and equipment	1,463,567	251,292	57,135	1,657,724
Subtotal	9,232,355	1,286,288	821,273	9,697,370
Net capital assets being depreciated	17,969,455	1,678,851	80,924	19,567,382
Net capital assets	<u>\$ 22,205,224</u>	<u>\$ 1,678,851</u>	<u>\$ 80,924</u>	<u>\$ 23,803,151</u>

Charter Township of Brownstown

Notes to Financial Statements December 31, 2006

Note 5 - Capital Assets (Continued)

	Balance January 1, 2006	Additions	Disposals and Adjustments	Balance December 31, 2006
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 203,749	\$ -	\$ -	\$ 203,749
Construction in progress	131,040	118,712	-	249,752
Subtotal	334,789	118,712	-	453,501
Capital assets being depreciated:				
Utility systems	77,069,894	954,552	-	78,024,446
Buildings and improvements	10,472,085	-	-	10,472,085
Vehicles	725,337	96,047	-	821,384
Other tools, machinery, and equipment	826,625	159,468	-	986,093
Subtotal	89,093,941	1,210,067	-	90,304,008
Accumulated depreciation:				
Utility systems	24,257,585	1,735,297	-	25,992,882
Buildings and improvements	1,358,987	237,650	-	1,596,637
Vehicles	526,275	98,121	28,769	595,627
Other tools, machinery, and equipment	580,520	76,312	-	656,832
Subtotal	26,723,367	2,147,380	28,769	28,841,978
Net capital assets being depreciated	62,370,574	(937,313)	(28,769)	61,462,030
Net capital assets	\$ 62,705,363	\$ (818,601)	\$ (28,769)	\$ 61,915,531

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 472,319
Public safety	690,827
Public works	13,339
Community and economic development	19,031
Recreation and culture	89,394
Internal Service Fund depreciation is charged to various functions based on their usage of the asset	1,378
Total governmental activities	<u>\$ 1,286,288</u>

Business-type activities:

Water	\$ 608,309
Sewer	1,539,071
Total business-type activities	<u>\$ 2,147,380</u>

Charter Township of Brownstown

Notes to Financial Statements December 31, 2006

Note 6 - Interfund Transfers

At December 31, 2006, the following interfund balances existed:

General Fund:

Nonmajor governmental funds	\$ 66,527
Internal Service Fund	48,584
Total General Fund	<u>\$ 115,111</u>
Police Operation Fund - General Fund	<u>\$ 341,498</u>

The composition of interfund transfers is as follows:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Police Operation Fund (1)	\$ 443,865
	Fire Protection Fund (2)	1,198,768
	Nonmajor governmental funds (4)	<u>81,030</u>
	Total General Fund	1,723,663
Police Operation Fund	Nonmajor governmental funds (4)	128,064
Fire Protection Fund	Nonmajor governmental funds (4)	93,347
Sanitary Sewer Fund	Water Fund (3)	97,774
	Nonmajor governmental funds (4)	<u>16,115</u>
	Total Sanitary Sewer Fund	113,889
Water Fund	Nonmajor governmental funds	16,398
Nonmajor governmental funds	Police Operation Fund (1)	305,000
	Fire Protection Fund (2)	150,000
	Nonmajor governmental funds (5)	<u>255,833</u>
	Total nonmajor governmental funds	710,833
Internal Service Fund	Nonmajor governmental funds (4)	<u>2,483</u>
	Total	<u>\$ 2,788,677</u>

(1) Transfer for police operation expenditures

(2) Transfer for fire protection expenditures

(3) Transfer for funding of half the cost of water meters purchased

(4) Transfer for retiree health care benefits

(5) Transfer for debt payments

Additionally, the Downtown Development Authority (DDA) is paying certain dollars to the Township for police and fire services based on the area covered by the DDA. The total amount spent by the DDA related to these services during 2006 was \$405,000.

Charter Township of Brownstown

Notes to Financial Statements December 31, 2006

Note 7 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Interest Rate	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds:							
Police Facility Bonds - 1997 Amount of issue - \$6,765,000 Maturing through 2022	4.75%	\$175,000	\$ 5,875,000	\$ -	\$ (5,700,000)	\$ 175,000	\$ 175,000
Police Facility Refunding Bonds - 2006 Amount of issue - \$5,610,000 Maturing through 2022	4.000% -	\$220,000 - \$450,000	-	5,610,000	-	5,610,000	-
Township Hall Renovation Bonds: Amount of issue - \$1,200,000 Maturing through 2017	3.750% - 4.625%	\$65,000 - \$115,000	1,035,000	-	(60,000)	975,000	65,000
Capital Improvement Road Bonds - 2003 Amount of issue - \$995,000 Maturing through 2013	2.000% - 3.450%	\$95,000 - \$120,000	845,000	-	(90,000)	755,000	95,000
Contractual obligations:							
Fire truck - 2000: Loan amount - \$750,000 Maturing through 2014	5.020%	\$50,577 - \$71,809	533,428	-	(48,086)	485,342	50,577
Land contract - 2003 (bus garage): Contract amount - \$700,000 Payable through 2007	0.000%	\$112,500	225,000	-	(112,500)	112,500	112,500
Fire truck - 2003: Lease/Purchase - \$425,000 Payable through 2010	2.770%	\$60,624 - \$65,804	311,750	-	(58,989)	252,761	60,624
Total governmental activities			\$ 8,825,178	\$ 5,610,000	\$ (6,069,575)	\$ 8,365,603	\$ 558,701

Charter Township of Brownstown

Notes to Financial Statements December 31, 2006

Note 7 - Long-term Debt (Continued)

	Interest Rate	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
Sewer:							
Wayne County Sewage Disposal System Bonds - 1967: Amount of issue - \$5,000,000 Maturing through 2006	3.900% 4.900%	\$ -	\$ 240,000	\$ -	\$ (240,000)	\$ -	\$ -
Wayne County Sewage Disposal System Refunding Bonds - 1994: Amount of issue - \$3,825,500 Maturing through 2008	3.150% - 6.000%	\$175,000 - \$304,100	757,904	-	(304,100)	453,804	278,805
Less unamortized deferred amount on refunding			(31,917)	-	10,941	(20,976)	(10,941)
South Huron Valley Phase II Bonds - 1991: Amount of issue - \$2,597,912 Maturing through 2011	2.000%	\$153,416 - \$169,671	971,295	-	(153,416)	817,879	157,480
SHVUA Plant Expansion Bonds - 1998: Amount of issue - \$8,606,758 Maturing through 2020	2.250%	\$381,588 - \$521,334	6,714,060	-	(381,588)	6,332,472	389,673
Contractual obligations:							
DPW Building Installment Loan - 1998: Amount of issue - \$600,000 Maturing through 2013	4.800%	\$31,058 - \$53,554	357,235	-	(40,171)	317,064	41,888
EPA Judgment - Brownstown's Share Downriver Sewage Disposal System Bonds:							
SRF #1 Project 5117-02 - \$114,300; 2014	2.000%	\$5,576 - \$6,505	54,826	-	(5,575)	49,251	5,576
SRF #2 Project 5117-03 - \$877,052; 2015	2.000%	\$44,101 - \$53,729	487,596	-	(43,791)	443,805	45,033
SRF #5 Project 5117-15 - \$2,698,311; 2018	2.000%	\$126,402 - \$165,631	1,888,409	-	(126,402)	1,762,007	129,399
SRF #6 Project 5117-18,19,21 - \$192,776; 2017	2.000%	\$8,956 - \$10,242	120,889	-	(8,957)	111,932	9,187
SRF #7 Project 5117-23 - \$731; 2017	2.250%	\$35 - \$45	476	-	(35)	441	35
SRF #9 Project 5117-24, 31 - \$291,996; 2020	2.250%	\$13,066 - \$16,756	209,016	-	(13,584)	195,432	13,951
SRF #10 Project 5117-25, 32 - \$691,456; 2020	2.250%	\$30,267 - \$40,541	516,956	-	(43,359)	473,597	32,467
SRF #11 Project 5117-20 - \$4,313; 2020	2.250%	\$190 - \$271	3,428	-	(190)	3,238	195
SRF #12 1999 A & B Refunding - \$887,593; 2018	4.400% - 5.13%	\$11,202 - \$59,146	694,059	-	(44,515)	649,544	46,444
SRF #13 Project 5117-01 - \$7,321; 2020	2.250%	\$325 - \$454	1,135	-	(325)	810	324
SRF #14 Project 5117-34 - \$315,567; 2021	2.500%	\$13,653 - \$19,859	261,058	-	(10,564)	250,494	13,963
SFR #15 Project - \$131,040; 2026	1.625%	\$5,600 - \$7,560	131,040	-	-	131,040	5,600
Subtotal - EPA			4,368,888	-	(297,297)	4,071,591	302,174
Less current amount payable from restricted assets			(562,561)	(58,654)	-	(621,215)	(621,215)
Total business-type activities			\$ 12,814,904	\$ (58,654)	\$ (1,405,631)	\$ 11,350,619	\$ 537,864

Charter Township of Brownstown

Notes to Financial Statements December 31, 2006

Note 7 - Long-term Debt (Continued)

	Interest Rate	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Component Unit - Downtown Development							
Authority - Downtown Development Bonds:	Variable						
Amount of issue - \$15,000,000		\$680,000 -					
Maturing through 2022		\$1,245,000	\$ 15,000,000	\$ -	\$ -	\$ 15,000,000	\$ 680,000

Annual debt service requirements to maturity for the above governmental bond and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Unit		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 558,701	\$ 552,351	\$ 1,111,052	\$ 537,864	\$ 307,689	\$ 845,553	\$ 680,000	\$ 495,883	\$ 1,175,883
2008	505,478	303,449	808,927	1,079,436	269,381	1,348,817	710,000	473,102	1,183,102
2009	544,937	283,794	828,731	935,172	236,335	1,171,507	740,000	448,258	1,188,258
2010	579,583	262,442	842,025	959,034	213,179	1,172,213	770,000	423,354	1,193,354
2011	536,798	239,452	776,250	983,118	189,311	1,172,429	800,000	397,180	1,197,180
2012-2016	2,880,106	838,282	3,718,388	4,063,665	626,322	4,689,987	4,525,000	1,554,509	6,079,509
2017-2021	2,310,000	313,159	2,623,159	2,755,510	154,469	2,909,979	5,530,000	776,246	6,306,246
2022-2026	450,000	9,000	459,000	36,820	1,810	38,630	1,245,000	29,071	1,274,071
Total	\$ 8,365,603	\$ 2,801,929	\$ 11,167,532	\$ 11,350,619	\$ 1,998,496	\$ 13,349,115	\$ 15,000,000	\$ 4,597,603	\$ 19,597,603

Advance and Current Refundings - In prior years, the Township defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. The old bonds are not callable. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At December 31, 2006, \$600,000 of bonds outstanding are considered defeased.

During the year, the Township refunded \$5,545,000 of 1997 Police Facility Bonds with an average interest rate of 4.8 percent used to finance the construction of the police station. These bonds were refunded through the issuance of \$5,610,000 of 2006 Police Facility Refunding Bonds with an average interest rate of 4.03 percent. The net proceeds of \$5,544,105 (after payment of \$97,435 in underwriter's fees and issuance costs and consideration of a premium of \$31,540) were used to purchase government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the statement of net assets. The advance refunding reduced total debt service payments over the next 15 years by \$331,370, which represents an economic gain of \$250,785.

Charter Township of Brownstown

Notes to Financial Statements December 31, 2006

Note 8 - Land Held for Resale

During the year ended December 31, 2004, the Downtown Development Authority issued \$15,000,000 in bonds to purchase \$14,265,000 of land. Management anticipates this land will be sold to developers in conjunction with the Town Center Project and, accordingly, it has been included as an asset in the Downtown Development Authority in the accompanying financial statements.

Note 9 - Restricted Assets

The balances of the restricted asset accounts reflected as business-type activities (Sanitary Sewer and Water Funds) are as follows:

Sanitary sewer restricted assets:

Cash and cash equivalents (to repay debt):	
To repay South Huron Valley Phase II bonds	\$ 348,661
To repay SHVUA Plant Expansion bonds	161,561
Customer receivables	22,365
Prepaid and accrued interest	5,388
Downriver sewage disposal system - Assets held at the	
County for future EPA debt payments	592,639
South Huron Valley Utility Authority - Start-up costs	<u>10,000</u>
Total sanitary sewer restricted assets	1,140,614

Water restricted assets:

Cash and cash equivalents (for improvements) -	
Restricted for water capital improvements	722,003
Customer receivables	<u>16,204</u>
Total water restricted assets	<u>738,207</u>
Total restricted assets	<u>\$ 1,878,821</u>

Charter Township of Brownstown

Notes to Financial Statements December 31, 2006

Note 9 - Restricted Assets (Continued)

Current liabilities to be paid from restricted assets of the Sanitary Sewer and Water Funds consist of the following:

Bond principal payments:

South Huron Valley Phase II bonds	\$ 157,480
SHVUA Plant Expansion bonds	161,561
EPA Sewage Disposal System bonds	302,174
Accrued interest	<u>64,691</u>

Total current liabilities payable from restricted assets	<u>\$ 685,906</u>
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Note 10 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefits claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation and the Michigan Municipal Risk Management Authority state risk pool for property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program and the Michigan Municipal Risk Management Authority (MMRMA) state risk pool program operate as common risk-sharing management programs for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. For the MMRMA program, a portion of the excess insurance coverage is underwritten by the Authority itself.

Charter Township of Brownstown

Notes to Financial Statements December 31, 2006

Note 11 - Defined Contribution Retirement Plan

The Township provides pension benefits to all of its full-time employees who are at least 18 years of age and the Township contributes on behalf of the Township board through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Salaried employees are eligible to participate the first of the month 30 days after hire. Union employees are eligible to participate the first of the month 90 days after hire. As established by the Township board, the Township contributes 11 percent to 15 percent of employees' base earnings for TPOAM union employees. In addition, the Township contributed 11 percent to 15 percent of base earnings for MAP union employees, 15 percent for COAM union employees, and 6 percent to 15 percent for IAFF fire department employees. TPOAM union employees, nonunion employees, and board members are required to contribute 5 percent of base earnings before taxes.

Also, 12 percent to 15 percent of base earnings are contributed for administrative nonunion personnel and board members. All participants may voluntarily contribute an additional amount, on an after-tax basis, not to exceed the Internal Revenue Service guidelines.

In accordance with these requirements, the Township contributed \$1,007,207 and employees contributed \$197,498.

Note 12 - Contingent Liabilities

The Township, along with several other communities in the downriver sewer system, was involved in litigation brought by the U.S. Environmental Protection Agency related to violations of the U.S. Clean Water Act. As a result of the violations, the communities are obligated to upgrade the system. The Township issued bonds of approximately \$6,472,000 in prior years to pay for costs related to the system improvements. The modifications to the system are substantially complete; however, final completion bonds and capital improvement bonds of approximately \$630,000 are expected to be issued during 2007.

Charter Township of Brownstown

Notes to Financial Statements December 31, 2006

Note 13 - Other Postemployment Benefits

The Township provides health care and life insurance benefits to retirees in accordance with labor contracts. The Township pays the full cost of coverage for these benefits. Currently, 16 retirees are eligible. The Township includes both retirees and their spouses in its insured health care plan but only retirees in the life insurance plan. There is no contribution required by the participant. Certain retirees who are not eligible for full coverage are reimbursed for Medicare premiums. Expenditures for postemployment health care and life insurance benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$142,500. The Township obtains health care coverage through private insurers.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008.

Note 14 - Joint Ventures

The Township is a member of the 33rd District Court (the "Court"), which provides services to the member communities. The Court receives its operating revenue mainly from fines and fees, in addition to annual funding provided by member communities.

During the current year, the Township contributed approximately \$775,000 for its operations. The Township received approximately \$922,000 in revenue from Court collections, net of the debt payments discussed below. Complete financial statements for the Court can be obtained from the administrative offices at 19000 Van Horn Road, Woodhaven, MI 48183. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating communities in the near future. The Township's total interest in this joint venture (including the Township's share of working capital) is \$1,134,647.

Charter Township of Brownstown

**Notes to Financial Statements
December 31, 2006**

Note 14 - Joint Ventures (Continued)

The Township is a member of the South Huron Valley Utility Authority (the "Authority"). The Authority is a joint venture of the charter townships of Brownstown, Huron, and Van Buren, the cities of Flat Rock, Gibraltar, Romulus, and Woodhaven, and the village of South Rockwood. The Authority was founded in order to acquire and operate a sewage disposal and wastewater treatment system. During the year, the Township contributed \$935,212 toward the operation of the system. In addition, debt payments of \$703,692, including both principal and interest, were made to the Authority. The Township's portion of the debt is recorded in the Township's Sewer Fund. The Township's share of the capital assets and net operating excess is also reflected in the Sewer Fund. The Township's interest in this joint venture is \$174,663, exclusive of capital assets and debt. Complete financial statements for the Authority can be obtained from the administrative offices at 46425 Tyler Road, Belleville, MI 48111. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

The Township, along with 12 other communities, jointly participates in the Downriver Sewage Disposal System. The Township's share of capital assets, restricted assets (for debt service), and related debt is recorded in the Sewer Fund. During the year, the Township paid \$545,690 for operations of the system and \$413,446 for debt service. The Township's interest in this joint venture is \$469,541, exclusive of capital assets and debt. Complete financial statements can be obtained from the administrative offices at 415 Clifford, Detroit, MI 48226. The Township is unaware of any circumstances that would cause additional benefit or burden to the participating governments in the near future other than the items noted in Note 12.

Required Supplemental Information

Charter Township of Brownstown

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 1,059,377	\$ 1,059,377	\$ 1,059,377	\$ -
Resources (Inflows)				
Property taxes	1,008,356	1,008,356	1,159,098	150,742
State sources	2,331,244	2,331,244	2,250,855	(80,389)
Fees and permits	1,681,700	1,681,700	1,365,329	(316,371)
Fines and forfeitures	951,500	951,500	922,108	(29,392)
Charges for services	686,750	686,750	628,246	(58,504)
Interest income	50,500	50,500	70,781	20,281
Special assessments	841,700	841,700	805,265	(36,435)
Other	103,800	103,800	138,830	35,030
Transfer from other funds	175,000	175,000	-	(175,000)
Total resources (inflows)	7,830,550	7,830,550	7,340,512	(490,038)
Charges to Appropriations (Outflows)				
General government:				
Legislative	81,017	84,017	82,143	1,874
District court	800,000	800,000	775,299	24,701
Executive	208,030	208,030	193,774	14,256
Elections	122,781	115,781	99,196	16,585
Accounting	190,779	190,779	171,187	19,592
Assessor	229,917	229,917	208,927	20,990
Legal	47,000	77,000	67,916	9,084
Clerk	204,251	220,251	173,386	46,865
Treasurer	224,126	250,126	247,076	3,050
Tax collection	90,336	99,336	88,665	10,671
Board of Review	3,430	3,430	2,989	441
Personnel	161,994	126,994	120,295	6,699
Nondepartmental	369,000	128,025	99,413	28,612
Public safety - Animal control	165,139	160,139	154,044	6,095
Community and economic development:				
Building and grounds	87,300	127,300	124,681	2,619
Public works	392,700	392,700	378,252	14,448
Community development	1,067,977	1,085,977	1,050,274	35,703
Planning	68,800	130,800	111,858	18,942
Zoning Board	23,031	23,031	17,458	5,573
Architectural Review Board	5,580	5,580	3,537	2,043
Environmental Review Board	1,000	1,000	279	721
Sanitation	817,500	897,500	904,600	(7,100)
Economic opportunity	97,350	57,350	32,900	24,450
Recreation and culture:				
Recreation	596,471	596,471	591,029	5,442
Parks	207,984	207,984	210,818	(2,834)
Library	60,000	117,000	116,688	312
Beautification commission	12,080	12,080	12,677	(597)
Historical commission	1,460	1,460	4,971	(3,511)
Community center	252,770	252,770	243,274	9,496
Employee benefits and insurance	34,100	41,100	40,046	1,054
Transfer to other funds	1,810,381	1,790,356	1,723,663	66,693
Total charges to appropriations (outflows)	8,434,284	8,434,284	8,051,315	382,969
Fund Balance - End of year	\$ 455,643	\$ 455,643	\$ 348,574	\$ (107,069)

Charter Township of Brownstown

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Police Operation Fund Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows)				
Property taxes	4,726,043	4,726,043	4,711,845	(14,198)
Interest income	20,000	20,000	51,807	31,807
Other	372,100	397,100	371,925	(25,175)
Transfer from other funds	604,125	712,125	748,865	36,740
Total resources (inflows)	5,722,268	5,855,268	5,884,442	29,174
Charges to Appropriations (Outflows)				
Public safety - Police	5,610,354	5,743,354	5,756,378	(13,024)
Transfers to other funds	111,914	111,914	128,064	(16,150)
Total charges to appropriations (outflows)	5,722,268	5,855,268	5,884,442	(29,174)
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Charter Township of Brownstown

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Fire Protection Fund Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows)				
Property taxes	1,758,350	1,758,350	1,755,915	(2,435)
Interest income	6,000	6,000	5,863	(137)
Other	588,300	818,300	780,575	(37,725)
Transfer from other funds	<u>1,451,970</u>	<u>1,451,970</u>	<u>1,348,768</u>	<u>(103,202)</u>
Total resources (inflows)	3,804,620	4,034,620	3,891,121	(143,499)
Charges to Appropriations (Outflows)				
Public safety - Fire	3,711,501	3,941,501	3,797,774	143,727
Transfers to other funds	<u>93,119</u>	<u>93,119</u>	<u>93,347</u>	<u>(228)</u>
Total charges to appropriations (outflows)	<u>3,804,620</u>	<u>4,034,620</u>	<u>3,891,121</u>	<u>143,499</u>
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Charter Township of Brownstown

Note to Required Supplemental Information Year Ended December 31, 2006

Budgetary Information - The Township is legally subject to the budgetary control requirements of Charter Township Act (Act 359 of 1947).

The Township adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets adopted by the Township board is included as required supplemental information. This comparison includes expenditure budget overruns. A comparison of actual results of operations, including budget overruns, to the nonmajor fund budgets as adopted by the Township board is available at the clerk's office for inspection.

The Township follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Township supervisor, on or before 120 days prior to the commencement of the fiscal and budgetary year (January 1), shall prepare and submit to the board a complete itemized proposed budget for the next fiscal year.
2. A public hearing on the budget shall be held before its final adoption, at such time and place as the board shall direct, and notice of such public hearing shall be published at least one week in advance thereof by the clerk.
3. The board shall, prior to the commencement of the next fiscal year, adopt a budget for the ensuing fiscal year.

The annual budget is prepared by the Township management and adopted by the Township board; subsequent amendments are approved by the Township board. Unexpended appropriations lapse at year end. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that transfers to/from other funds have been included in revenue and expenditures, rather than as other financing sources (uses).

The budget statements are presented on the same basis of accounting used in preparing the adopted budget.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, there were no significant expenditures in excess of the amounts budgeted.

Other Supplemental Information

Charter Township of Brownstown

Special Revenue

	CDBG	Capital Improvement	Police Improvement	Fire Improvement	Road Improvement
Assets					
Cash and investments	\$ -	\$ 184,932	\$ 336,707	\$ 346,514	\$ 509,314
Receivables - Net	31,158	6,000	293,397	293,397	305,975
Prepaid costs and other assets	-	-	-	31,612	-
Long-term receivable - Lease agreements	-	66,000	-	-	-
Total assets	<u>\$ 31,158</u>	<u>\$ 256,932</u>	<u>\$ 630,104</u>	<u>\$ 671,523</u>	<u>\$ 815,289</u>
Liabilities and Fund Balances (Deficit)					
Liabilities					
Accounts payable	\$ 6,843	\$ 201	\$ 3,628	\$ 49,992	\$ 233,587
Due to other funds	24,315	-	-	-	-
Escrow funds	-	4,500	-	-	135,700
Deferred revenue	6,566	72,000	356,634	356,634	376,511
Total liabilities	37,724	76,701	360,262	406,626	745,798
Fund Balances (Deficit)					
Reserved for prepaid costs	-	-	-	31,612	-
Designated for subsequent year's budget	-	180,231	-	233,285	-
Undesignated (deficit)	(6,566)	-	269,842	-	69,491
Total fund balances (deficit)	(6,566)	180,231	269,842	264,897	69,491
Total liabilities and fund balances (deficit)	<u>\$ 31,158</u>	<u>\$ 256,932</u>	<u>\$ 630,104</u>	<u>\$ 671,523</u>	<u>\$ 815,289</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2006**

Funds			Debt Service Funds		Total Nonmajor Governmental Funds
Drug Forfeiture	Housing Assistance	Retiree Insurance	Debt Service	Building Authority	
\$ 151,105	\$ -	\$ 1,416,948	\$ 250	\$ -	\$ 2,945,770
6,563	48,086	11,331	-	-	995,907
-	-	-	-	-	31,612
-	-	-	-	-	66,000
\$ 157,668	\$ 48,086	\$ 1,428,279	\$ 250	\$ -	\$ 4,039,289
\$ -	\$ 5,874	\$ -	\$ 250	\$ -	\$ 300,375
-	42,212	-	-	-	66,527
-	-	-	-	-	140,200
-	-	-	-	-	1,168,345
-	48,086	-	250	-	1,675,447
-	-	-	-	-	31,612
76,000	-	-	-	-	489,516
81,668	-	1,428,279	-	-	1,842,714
157,668	-	1,428,279	-	-	2,363,842
\$ 157,668	\$ 48,086	\$ 1,428,279	\$ 250	\$ -	\$ 4,039,289

Charter Township of Brownstown

	Special Revenue				
	CDBG	Capital Improvement	Police Improvement	Fire Improvement	Road Improvement
Revenue					
Property taxes	\$ -	\$ -	\$ 329,211	\$ 329,211	\$ 329,211
Federal sources	85,011	-	-	-	-
Interest income	-	9,750	9,020	16,420	18,059
Debt charges	-	-	-	-	-
Other	-	24,544	34,921	28,346	410,693
Total revenue	85,011	34,294	373,152	373,977	757,963
Expenditures					
Current:					
Public safety	-	-	-	-	-
Community maintenance and development	71,040	6,840	-	-	-
Employee benefits and insurance	-	-	-	-	-
Capital outlay	-	116,093	189,089	391,834	749,112
Debt service	-	-	-	-	-
Total expenditures	71,040	122,933	189,089	391,834	749,112
Excess of Revenue Over (Under)					
Expenditures	13,971	(88,639)	184,063	(17,857)	8,851
Other Financing Sources (Uses)					
Transfers in	-	-	-	-	-
Transfers out	-	-	(100,000)	(291,415)	(114,418)
Proceeds from long-term debt issue	-	-	-	-	-
Transfer to escrow agent	-	-	-	-	-
Total other financing sources (uses)	-	-	(100,000)	(291,415)	(114,418)
Net Change in Fund Balances	13,971	(88,639)	84,063	(309,272)	(105,567)
Fund Balances (Deficit) - Beginning of year	(20,537)	268,870	185,779	574,169	175,058
Fund Balances (Deficit) - End of year	<u>\$ (6,566)</u>	<u>\$ 180,231</u>	<u>\$ 269,842</u>	<u>\$ 264,897</u>	<u>\$ 69,491</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances (Deficit) - Nonmajor Governmental Funds
Year Ended December 31, 2006

Funds			Debt Service Funds		Total Nonmajor Governmental Funds
Drug Forfeiture	Housing Assistance	Retiree Insurance	Debt Service	Building Authority	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 987,633
164,344	162,756	-	-	-	412,111
8,340	-	40,859	-	-	102,448
-	-	-	112,500	595,163	707,663
-	-	14,225	-	-	512,729
172,684	162,756	55,084	112,500	595,163	2,722,584
99,561	-	-	-	-	99,561
-	139,409	-	-	-	217,289
-	-	142,573	-	-	142,573
-	-	-	-	-	1,446,128
-	-	-	368,333	660,163	1,028,496
99,561	139,409	142,573	368,333	660,163	2,934,047
73,123	23,347	(87,489)	(255,833)	(65,000)	(211,463)
-	-	337,437	255,833	-	593,270
(205,000)	-	-	-	-	(710,833)
-	-	-	-	5,610,000	5,610,000
-	-	-	-	(5,545,000)	(5,545,000)
(205,000)	-	337,437	255,833	65,000	(52,563)
(131,877)	23,347	249,948	-	-	(264,026)
289,545	(23,347)	1,178,331	-	-	2,627,868
\$ 157,668	\$ -	\$ 1,428,279	\$ -	\$ -	\$ 2,363,842

Charter Township of Brownstown

Other Supplemental Information Combining Statement of Assets and Liabilities Fiduciary Funds December 31, 2006

	Agency Funds		
	School and County	Tax Collection	Total
Assets - Cash and investments	\$ 1,902	\$ 4,520,877	\$ 4,522,779
Liabilities			
Due to other governmental units	\$ 1,902	\$ 864,580	\$ 866,482
Due to component unit	-	3,596,115	3,596,115
Accrued and other liabilities	-	60,182	60,182
Total liabilities	\$ 1,902	\$ 4,520,877	\$ 4,522,779

May 24, 2007

To the Supervisor and Township Board
Charter Township of Brownstown
21313 Telegraph Road
Brownstown, Michigan 48183

Dear Supervisor and Board Members:

We recently completed the audit of the financial statements of the Charter Township of Brownstown (the "Township") for the year ended December 31, 2006. In addition to the audit report, we offer the following comments and suggestions for your consideration.

Financial Condition

The Township's General Fund fund balance has experienced consistent decreases in recent years as shown below:

December 31, 2003	\$2,269,700
December 31, 2004	1,857,000
December 31, 2005	1,059,000
December 31, 2006	349,000

As you know, a general rule of thumb for adequate fund balance is to maintain a fund balance of at least 10 percent to 20 percent of one year's worth of expenditures. The current undesignated fund balance is only \$217,000, when compared to annual expenditures of the General Fund (including expenditures of the Police and Fire Fund which are subsidized by the General Fund), representing approximately 1.3 percent. Adequate fund balance is a critical tool in the struggle to maintain cash flows and hedge against unforeseen expenses. We encourage the Township to study the trends and consider preparing a five-year financial forecast to project future fund balance levels.

Significant Deficiencies

New auditing rules, effective December 31, 2006, have resulted in some changes in the communications that we are required to provide following our audit. These rules require us to more formally communicate matters we note about your accounting procedures and internal controls. While we have always provided our observations in these areas as part of our audit, we are now required to tell you about more items than we may have in the past and to communicate them in writing.

The new auditing standard (Statement on Auditing Standards No. 112, referred to as SAS 112) requires us to inform you about any matters noted in your accounting procedures or internal controls that the new standard defines as a "significant deficiency." The new threshold for a significant deficiency is a low one - a significant deficiency is any flaw that creates more than a remote risk of errors in your financial statements that could matter to a user of the statements. Matters that may be immaterial to the financial statements still may be classified by the new auditing standards as a significant deficiency.

We are also required to communicate these matters to more people. In the past, we have sometimes provided comments of this nature as part of a draft meeting with management. Only material internal control issues have been included in our letter. Under these new rules, we are obligated to communicate these matters in writing to all individuals involved in overseeing strategic direction and accountability for your operations, including the supervisor and the board members in addition to our communications with management. This communication is intended to comply with the requirements of the new auditing standards.

In planning and performing our audit for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We consider the following to be significant deficiencies in internal control:

- Normally, separate individuals in the finance office prepare and review the monthly bank reconciliations. However, one of these individuals was on leave for approximately six months during the year. Although bank reconciliations were prepared timely by the accounting supervisor during this time period, they were not reviewed by anyone else. The employee has since returned from leave and appropriate segregation of duties has been restored.

- The Township does not have a procedure in place to identify and track all federal expenditures. The Township receives drug forfeiture revenues from local, state, and federal sources. The forfeiture funds are accounted for in a separate Special Revenue Fund, but the expenditures are not tracked by source to readily identify the federal expenditures. As a result, the Township was initially unable to determine whether or not an A-133 federal awards audit was required.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Significant adjusting journal entries were required in order to prepare the Township's financial statements in accordance with generally accepted accounting principles (GAAP). We consider these necessary adjustments to be a material weakness in internal control. These entries related to the following:

- Investment in District Court
- Investment in South Huron Valley Utility Authority
- Developer contributions of water and sewer lines
- Activity related to the downriver sewage disposal system

These are entries that the Township would typically only post as of the end of the year and they have historically relied on the auditors to compute and post the entries. In addition, during the year there was a bond refunding that had not been reflected in the accounting records. We also posted some reclassifications for GASB No. 34 purposes.

In addition to the above, we have identified additional matters that we would like to communicate as a result of our audit. These matters are not considered to be significant deficiencies or material weaknesses.

State-shared Revenue

The future of the State's revenue-sharing program is closely tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The magnitude of the State's deficit has become even more pronounced after the State's January 2007 revenue estimating conference. According to economists, Michigan's budget is \$3 billion short of the revenue needed to cover basic services this year and next (state fiscal years 2006/2007 and 2007/2008). The outcome of other matters will also impact revenue sharing and those matters include:

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the "revenue-sharing formula" and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- **Statutory Revenue-sharing Formula Expires in 2007** - Legislative action is required on this Act for appropriations to continue into 2008 and beyond.
- **Changing Michigan Business Tax Structure** - The Michigan single business tax has been eliminated effective December 31, 2007, which will result in the loss of \$1.9 billion from the State's budget in 2008. The governor's fiscal year 2007/2008 budget recommends replacing a majority of the repealed single business tax revenue with a new Michigan business tax. The governor's budget also includes several other tax increases and changes. Much debate will occur prior to the enactment of a final tax structure plan.

While the debate has begun, there still remain considerably more questions than answers regarding long-term funding of statutory revenue sharing. Additionally, there are several practical short-term concerns including:

- If revenue-sharing cuts are enacted for the State's fiscal year 2006/2007, then these unplanned revenue-sharing payment reductions could impact the Township's year ending December 31, 2007.
- Final decisions on revenue-sharing funding levels for the State's fiscal year 2007/2008 will likely not be complete in time for local governments working on 2008 budgets.

- With the appropriation reductions to revenue sharing since 2001 (including approximately \$558 million in fiscal years 2006/2007 over amounts calculated by the statutory formula), a number of townships are no longer receiving any statutory revenue sharing. To accomplish the appropriation reductions mandated in the State's budget, the State is required to reduce the statutory portion of a local unit's revenue sharing (remember that the constitutional portion cannot be adjusted). Many townships no longer have any statutory revenue sharing remaining as a result. For those communities, because sales tax collections have increased since 2001, their revenue sharing is actually increasing because they are now only receiving constitutional revenue sharing.

The table below details state-shared revenue for the Township since 2001 broken out by statutory and constitutional portions.

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>
2001	\$1,487,327	\$1,491,806	\$2,979,133
2002	\$1,283,280	\$1,507,003	\$2,790,283
2003	\$1,052,812	\$1,532,516	\$2,585,328
2004	\$807,701	\$1,515,870	\$2,323,571
2005	\$746,199	\$1,552,045	\$2,298,244
2006	\$694,204	\$1,578,468	\$2,272,672
2007 estimate	\$655,892	\$1,575,531	\$2,231,423

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the Township has approximately \$656,000 at risk in its General Fund budget based on 2007 funding levels. In light of the current environment, we strongly encourage you to be conservative when budgeting or projecting the revenue-sharing line item.

Property Assessment Cap

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

2007	3.7%
2006	3.3%
2005	2.3%
2004	2.3%
2003	1.5%
2002	3.2%

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the Township. In general terms, if growth on the Township's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the Township to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the Township's existing property tax base was less than inflation, the Headlee Amendment allowed the Township to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the Township is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended December 31, 2006, the Township's Headlee maximum property tax rate for its operating levy was .8726 mills even though the charter would allow the Township to levy 1 mill for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated in several published studies and reports, due to definitional changes made to the General Property Tax Act in 1994 and the treatment of uncapped values or the "pop-up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue particularly given the significant gap that now exists between taxable value and state equalized value.

Property Tax Legislation

A series of House bills were introduced in 2007 dealing with the treatment of the uncapping of value on sale or transfer of property. With the passage of Proposal A in 1994, changes to the taxable value of an individual property are limited to the lesser of the rate of inflation or 5 percent, until the property is sold or transferred. The difference between the capped taxable value amount and state equalized value at the time of transfer is referred as the "uncapped" value or the "pop-up" value. As several published studies and reports have demonstrated, the treatment of "uncapped" values or the "pop-up" amount when a property is transferred or sold as growth on existing property subject to the Headlee rollback calculation has resulted in continued downward pressure on millage rates. This treatment is due to definitional changes made to the General Property Tax Act in 1994.

The three bills in the package are House Bills 4440, 4441, and 4442 and would propose to do the following:

- **House Bill 4440** - This bill establishes an 18-month moratorium on the "pop-up" or "uncapping" of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the time frame of the moratorium would continue to pay property taxes at the previous taxable value amount. The "pop-up" or "uncapping" of taxable value would be delayed until the property was sold or transferred in later years.
- **House Bill 4441** - This bill increases the real estate transfer tax by .10 percent and earmarks the money to be returned to local government for potential loss in revenue occurring from House Bill 4440.

- **House Bill 4442** - This bill would change the General Property Tax Act to exempt the “pop-up” or “uncapped” value from the Headlee rollback calculation. If this legislation were enacted, increases in taxable value resulting from property sales or transfers would be treated as “additions” to taxable value or new growth versus growth on existing property.

House Bills 4440 and 4441 passed the House on March 14 (HB 4440 has been assigned to the Senate Finance Committee). House Bill 4442 has not been voted on yet in the House. The bills are not tie barred.

Retiree Health Care Benefits and GASB No. 45

The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local governmental units in recognizing the cost of retiree health care and other nonpension postemployment benefits. The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of an employee, rather than at the time the health care premiums are paid.

The new pronouncement is effective for the year ending December 31, 2008. While the Township has accumulated approximately \$1,430,000 to fund its obligation for retiree health care in the Retirement Health Care Special Revenue Fund, the Township, like most other governmental units, is not actuarially funding this liability like a pension system. These new standards allow the Township to fund the actuarial accrued liability for benefits provided and earned to date over 30 years. This new pronouncement could have a significant effect on the Township if it intends to actuarially fund this obligation. We recommend that the Township complete the actuarial valuation of this benefit obligation to fully understand the dollar implication to the Township’s budget. In addition, the Township will need to disclose the results of the actuarial valuation one year earlier, the year ending December 31, 2007.

Other Accounting Matters

- Water and sewer tap fees have remained the same for the past several years. The Township should consider reviewing the current fee structure to determine if the existing rates are adequate to cover costs and to potentially build a reserve for future improvements.
- The General Fund charges the Water Fund and Sanitary Sewer Fund an administrative fee for services provided by the General Fund employees. These fees have remained at or near the same level for the past several years. The Township should consider raising this rate, if appropriate, to fairly cover these administrative expenditures.

This communication is intended solely for the information and use of management and the board and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank you and your staff again this year for their preparedness, cooperation, and assistance that they provided during the audit. If you have any questions, or would like to discuss these items further, please feel free to contact us at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in cursive script, appearing to read "Beth Bialy".

Beth A. Bialy

A handwritten signature in cursive script, appearing to read "Brian J. Camiller".

Brian J. Camiller